

NEW APPLICATION



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ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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IN THE MATTER OF THE APPLICATION OF
ARIZONA PUBLIC SERVICE COMPANY FOR
APPROVAL OF POWER SUPPLY ADJUSTOR
SURCHARGES.

DOCKET NO. E-01345A-06-
E-01345A-06-0063

APPLICATION FOR
SURCHARGES

I. INTRODUCTION

Pursuant to Decision No. 67744 (April 7, 2005) and as permitted by the decision approved by the Arizona Corporation Commission ("Commission") on January 25, 2006, Arizona Public Service Company ("APS" or "Company") hereby requests that the Commission approve two Power Supply Adjustor ("PSA") surcharges totaling \$.002165 per kWh. Together, these would amount to approximately a 2.6% temporary increase over the rates effective February 1, 2006, and would recover approximately \$59.9 million over their respective 12-month amortization periods. The \$59.9 million represents the amount in the "Paragraph 19 (d) Balancing Account" after taking into consideration the recovery of 2005 PSA deferrals via the 4 mill annual PSA adjustor that became effective February 1, 2006. The calculations of the amount in the "Paragraph 19 (d) Balancing Account" and of the two surcharges are shown in Exhibit A, attached to this Application.

APS requests that the temporary surcharges be implemented in two steps: (i) a surcharge of \$.000554 per kWh to recover \$15.3 million over a 12 month amortization period, with such

1 surcharge effective concurrent with the decision in Docket No. E-01345A-06-0009¹; and (ii) a
2 surcharge of \$.001611 per kWh to recover \$44.6 million over a 12 month amortization period,
3 with such second surcharge to become effective no later than upon completion of the
4 Commission's inquiry in Docket No. E-01345A-05-0826 regarding the unplanned 2005 outages
5 at the Palo Verde Nuclear Generating Station ("PVNGS").²

6 APS believes that the first of these two surcharges can be approved and implemented
7 without a new hearing based on the extensive record already developed in Docket No. E-01345-
8 05-0526, of which the Commission can either take official notice or expressly incorporate into
9 this docket under the provisions of A.A.C. R14-3-109 (T) and (U). APS also would note that such
10 record overwhelmingly supported approval of a PSA surcharge that included non-PVNGS related
11 fuel and purchased power costs. And this first PSA surcharge of \$.000554 per kWh would, in
12 fact, recover only the portion of the "Paragraph 19 (d) Balancing Account" that is unrelated to the
13 2005 outages at PVNGS and thus can be implemented concurrently with the Commission's
14 decision in Docket No. E-01345A-06-0009. Like all PSA charges, the costs recovered through
15 this first PSA surcharge would remain subject to a prudence review at a later date of the
16 Commission's choosing.

17 These two PSA surcharges are necessary in order to allow recovery of \$59.9 million of
18 under-collected 2005 fuel and purchased power costs³ in the "Paragraph 19 (d) Balancing
19 Account" and as noted above, would represent a total temporary increase in Company revenues of
20 approximately 2.6% during the months that both surcharges would be in effect. The amount to be
21

22
23 ¹ *In the Matter of the Application of Arizona Public Service Company for an Emergency Interim Rate Increase and
for an Interim Amendment to Decision No. 67744.*

24 ² *In the Matter of the Inquiry into the Frequency of Unplanned Outages During 2005 at Palo Verde Nuclear
Generating Stations, the Causes of the Outages, the Procurement of Replacement Power and the Impact of the
25 Outages on Arizona Public Service Company's Customers.*

26 ³ These are out-of-pocket costs paid to suppliers of fuel and purchased power plus interest expense. There is no
shareholder profit included.

1 recovered does not reflect the 10% of fuel and purchased power costs that have been written off
2 by APS and effectively absorbed by shareholders, as required by the terms of the PSA.

3 II. THE APS PSA

4 The Commission approved the PSA in Decision No. 67744. The PSA is intended to
5 ameliorate the impact of highly variable fuel and purchased power costs for both APS and its
6 customers and to send price signals to customers about the cost of energy. It does so by providing
7 a mechanism to allow APS to recover/refund a large portion (but not all) of its higher/lower fuel
8 and purchased power costs. This also helps preserve the Company's financial integrity and
9 corresponding ability to properly serve its customers.

10 In a decision approved on January 25, 2006, the Commission both modified and clarified
11 Decision No. 67744. The Commission modified Decision No. 67744 by changing the effective
12 date of the annual adjustor to February 1 of each calendar year. The Commission also clarified
13 that the Company may seek a surcharge to be effective on or after February 1, with the amount of
14 deferred fuel and purchased power costs to be collected through the surcharge determined after
15 the application of the annual adjustor. The "carry-over" amount that may be recovered through a
16 surcharge is the amount in the "Paragraph 19(d) Balancing Account."

17 III. THE PROPOSED PSA SURCHARGE

18 A. *Reasons for the Proposed PSA Surcharges*

19 As discussed extensively in Docket No. E-01345A-05-0526, the cost of both natural gas
20 and purchased power remained high throughout 2005. The unhedged cost of natural gas was
21 \$8.14 per MMBTU delivered for April through December of 2005 compared to the \$5.78 per
22 MMBTU reflected in the base fuel and purchased power cost incorporated in the rates authorized
23 by Decision No. 67744 – over a 40% increase. The unhedged cost of purchased power was
24 \$75.10 per MWH delivered for April through December of 2005 compared to the \$43.37 per
25 MWH reflected in the base fuel and purchased power cost incorporated in the rates authorized by
26 Decision No. 67744 – nearly a 75% increase. These higher costs, even after hedging, resulted in a

1 significant under-collection by APS of power supply costs during the nine-month period between
2 April 1, 2005 and December 31, 2005. A portion of that under-collection is now being recovered
3 through the 4 mill adjustor approved by the Commission to be effective on February 1, 2006. This
4 surcharge application seeks to recover the remainder of those 2005 under-collected costs as
5 recorded in the "Paragraph 19 (d) Balancing Account."

6 The Company's hedging program effectively reduced the per MWH cost of purchased
7 power and gas combined from \$67.60 to \$54.28, and saved APS native load customers
8 approximately \$109 million in fuel and purchased power costs through the end of December.⁴
9 APS under-collected its power supply costs because the base fuel cost figure adopted by Decision
10 No. 67744 (\$.020743 per kWh) was premised on 2003 fuel and purchased power prices that
11 incorporated a much lower per MWH cost for gas and purchased power of \$47.09, as well as the
12 then lower costs of other resources. The comparable total cost per kWh for fuel and purchased
13 power increased to approximately \$.027 (after 90/10 sharing) for the nine months of April
14 through December of 2005. See Figures 1 below.

15 Figure 1

	2003 Base Rate	Actual 2005	% Increase
Total Cost ¢/kWh	2.0743	2.693	30%

18
19 After implementation of the February 1, 2006 adjustor, the Company's Paragraph 19(d)
20 Balancing Account for 2005 is \$59.9 million. The requested surcharges totaling \$.002165 per
21 kWh are necessary to recover this under-collection over a 12-month period, consistent with the
22 12-month period typically used by the Commission. These surcharges will recover only the power
23 supply costs that APS deferred during 2005 and that are not already being recovered through the
24 February 1, 2006 PSA adjustor. As required by the Commission's January 25, 2006 decision,

25 ⁴ Although the APS hedging program has resulted in lower fuel and purchased power costs during 2005 to date, the
26 primary goal of hedging is to reduce risk and price volatility.

1 APS will defer 2006 under-collected power supply costs and will reflect them in the Annual
2 Tracking Account during 2006 for future recovery.

3 For these reasons, the proposed PSA surcharges totaling \$.002165 per kWh are
4 reasonable, consistent with the provisions of Decision No. 67744 and the Commission's January
5 25, 2006 decision, and should be approved, with a surcharge of \$.000554 per kWh to be effective
6 concurrent with a Decision in the Company's interim rate increase in Docket No. E-01345A-06-
7 0009, and a second surcharge of \$.001611 per kWh to be effective no later than the completion of
8 the Commission's completion of its review of 2005 PVNGS outages. A copy of the language
9 proposed for the PSA surcharges in the Company's affected rate schedules is attached to the
10 Company's Application as Exhibit B.

11 *B. The Impact of the PSA Surcharge on Customer Rates*

12 The combined impact of the requested PSA surcharges would represent an approximate
13 2.6% temporary increase in overall Company retail revenues during the months both surcharges
14 are effective. The first surcharge requested will raise the average price of a kWh from \$.091969
15 to \$.092523 and will result in an increase in annual bills of \$7.73 (.6%) for residential customers
16 and \$58.38 (.7%) for an average (Rate Schedule E-32) non-residential customer.⁵ Customers,
17 both residential and non-residential, using higher/lower amounts of energy would face
18 greater/lesser increases, thus making the overall average of this temporary increase .66%.

19 The second requested PSA surcharge (\$.001611 per kWh) will raise the average price of a
20 kWh from \$.092523 to \$.094134 and will result in an additional increase in bills in annual bills of
21 \$22.46 (1.75%) for residential customers and \$169.77 (2%) for an average (Rate Schedule E-32)
22 non-residential customer. This would represent an additional 1.9% increase overall. Customers,
23 both residential and non-residential, using higher/lower amounts of energy would face
24 greater/lesser increases, thus making the total overall monthly average of these two temporary

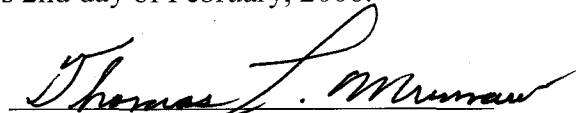
25 ⁵ Average monthly impact would simply be the annual increase divided by 12. The impact in any specific month
26 would depend on that month's consumption and whether or not both surcharges were in effect during that month.

1 increases for the portions of the twelve month recovery periods that overlap the 2.6% figure cited
2 above.

3 **IV. CONCLUSION**

4 APS believes the requested PSA surcharges totaling \$.002165 per kWh, to be
5 implemented in two steps of \$.000554 per kWh and \$.001611 per kWh, are in the public interest
6 and are consistent with Commission decisions regarding the Company's PSA. APS requests that
7 the Commission promptly approve the implementation of the first requested surcharge without a
8 hearing to be effective concurrently with the decision in Docket No. E-01345A-06-0009.
9 Implementation of the second requested surcharge would happen no later than the Commission's
10 completion of its review of PVNGS outages in Docket No. E-01345A-05-0826.


11 RESPECTFULLY SUBMITTED this 2nd day of February, 2006.

12 
13 Thomas L. Mumaw
14 Karilee S. Ramaley

15 Attorneys for Arizona Public Service Company

16 The original and 13 copies of the foregoing were
17 filed this 2nd day of February, 2006 with:

18 Docket Control
19 Arizona Corporation Commission
20 1200 West Washington
21 Phoenix, AZ 85007.

22 
23 Vicki DiCola
24
25
26

**ARIZONA PUBLIC SERVICE COMPANY
2005 Year End PSA Adjustor Rate Calculation**

Line

No. **PSA Adjustor Rate Calculation**

1	Annual Tracking Account Amount (From Sch. 1)		\$ 167,929,726
2	Annual Tracking Account Interest (From Sch. 2)		\$ 1,652,349
3	Less: Approved Amortization Surcharge Balance		\$ -
4	Bandwidth Carry Forward from Prior Period		\$ -
5	Total (Credit)/Charge Amount (Line 1 + Line 2 + Line 3 + Line 4)		<u>\$ 169,582,075</u>
6	Annual Tracking Account Amount Plus Interest	\$ 169,582,075	
7	Projected Energy Sales without E-3, E-4 and E-36 (kWh)	<u>27,430,972,000</u>	
8	Computed Adjustor Rate per kWh (Line 6 / Line 7)		<u>\$ 0.006182</u>
<u>Adjustor Rate Bandwidth</u>			
9	Adjustor Rate Bandwidth Upper Limit		<u>\$ 0.004000</u>
10	Adjustor Rate Bandwidth Lower Limit		<u>\$ (0.004000)</u>
11	Applicable Adjustor Rate per kWh		<u>\$ 0.004000</u>
12	Annual Adjustor Account (Line 7 * Line 11)		109,723,888
13	Surcharge Account		0
14	Amount Carried Forward to Paragraph 19d Balancing Account (Line 5 - Line 12 - Line 13)		<u>59,858,187</u>

Note: This calculation is done once a year for the change to the PSA Adjustor Rate in February.

**Arizona Public Service Company
PSA Surcharge Calculation**

Line No.		<u>Total</u>	<u>Step 1</u>	<u>Step 2</u>
1	Paragraph 19d Balancing Account	\$ 59,858,187	\$ 15,293,787	\$ 44,564,400
	Projected Retail Sales - Adjusted (MWhs) ¹			
2	May-06		2,345,380	
3	Jun-06		2,706,630	
4	Jul-06		3,151,298	3,151,298
5	Aug-06		3,107,899	3,107,899
6	Sep-06		2,569,129	2,569,129
7	Oct-06		2,102,797	2,102,797
8	Nov-06		1,875,111	1,875,111
9	Dec-06		2,148,457	2,148,457
10	Jan-07		1,956,222	1,956,222
11	Feb-07		1,783,060	1,783,060
12	Mar-07		1,852,102	1,852,102
13	Apr-07		2,005,528	2,005,528
14	May-07			2,362,700
15	Jun-07			2,747,378
16	Total MWhs		27,603,614	27,661,681
17	Total kWhs		27,603,614,034	27,661,680,892
18	PSA Surcharge per kWh		\$ 0.000554	\$ 0.001611

¹ Since E-3, E-4, and E-36 customers are excluded from the PSA Surcharge, therefore kWh sales associated with these customers are excluded from the projected retail sales for this calculation.



Exhibit B
ADJUSTMENT SCHEDULE PSA-1
POWER SUPPLY ADJUSTMENT

APPLICATION

The Power Supply Adjustment ("PSA") shall apply to all retail electric schedules with the exception of Solar-1, Solar-2, SP-1, E-3, E-4, E-36 and Direct Access service. All provisions of the customer's current applicable rate schedule will apply in addition to this charge.

RATES

The charges shall be calculated at the following rates:

PSA Adjustor Rate

All kWh	\$0.004000	per kWh
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Amortization Surcharge

Step 1 - All kWh	\$0.000554	per kWh
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Step 2 - All kWh	\$0.001611	per kWh
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